

**CIPFA LOCAL
AUTHORITY
HOUSING PANEL
NEWSLETTER**

ISSUE NUMBER 3

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INTRODUCTION

Welcome to the third newsletter for CIPFA members working in local authorities in housing finance and anyone interested in housing finance issues. This newsletter has been prepared by CIPFA's Housing Panel. This issue contains a summary of the Panel's new Introductory Guide to Housing Finance in England, some information about the Panel's seminar programme, and the full text of CIPFA's recent response to the ODPM consultation paper 'A new financial framework for Local Authority Housing: Resource Accounting in the Housing Revenue Account HRA subsidy and rent'.

There are also some answers to recent queries received by CIPFA's Helpdesk, some information about the Housing Panel and a short piece about the Public Management and Policy Association (PMPA). Finally, there are some useful weblinks.

HOUSING FINANCE – NEW GUIDE OUT NOW

CIPFA has recently published a new guide: *An Introductory Guide to Housing Finance in England*. The guide is intended as a handy overview of the main financial issues in housing today for elected members, managers, those new to housing finance and anyone interested in the financial aspects of councils' housing role. It aims to:

- provide an overview of housing finance, reflecting the key elements of national policy
- analyse and explain key finance issues
- advise on new developments that are likely to affect housing finance in the near future.
- provide plenty of signposts to other, more detailed information sources.

The Guide contains comprehensive appendices on new and forthcoming housing policies, housing benefit expenditure categories and subsidy rates, HRA income and expenditure items, Best Value Accounting Code of Practice recommendations for housing, Audit Commission recommendations for comprehensive performance assessments, housing benefit and council tax performance

standards. It also includes a useful glossary of nearly 300 housing finance terms. *An Introductory Guide to Housing Finance in England* is available online from the CIPFA website www.cipfa.org.uk/shop or by telephoning CIPFA Publications (tel 020 7543 5602).

HOUSING PANEL SEMINAR: AN INTRODUCTION TO LOCAL AUTHORITY HOUSING FINANCE

The Housing Panel's next course, expected to take place in the first week of December this year, will be "An Introduction to in Local Authority Housing Finance". Like the Guide, the course will be aimed at elected members, managers, those new to housing finance and anyone interested in the financial aspects of councils' housing role. Delegates to the seminar will be entitled to a 25% discount on copies of the Guide.

Speakers are expected to include John Apps of the Office of the Deputy Prime Minister, Simon Wiles, Head of Financial Services, City of York Council, and Paul Cook, author of *An Introductory Guide to Housing Finance in England*.

The seminar will include sessions on:

- **What is the strategic housing role?**
 - the main components of the strategic housing role
 - developing a housing strategy
 - bringing partnerships into your housing strategy
 - how Best Value and Comprehensive Performance Assessment will evaluate the strategic role.
- **Sustainable Home Ownership**
 - examining the financial implications of the various schemes available to local authorities
 - practical considerations for implementing home ownership schemes
 - the potential of private sector housing renewal to stimulate greater home ownership.

- **Successful Delivery of New Affordable Housing**

- co-ordination of housing bodies to develop affordable housing
- how the social housing grant mechanism works.

- **Housing Finance System – Changes and Reform**

- introducing resource accounting and business planning
- the impact of restructuring social rents
- changes to the Housing Revenue Account System.

- **Housing Benefit**

- identifying the risks associated with housing benefit
- relating housing benefit to your partners in housing
- what should housing accountants know about housing benefit?

There will also be breakout sessions on Stock transfer, Arms-length management companies and Private Finance Initiative.

For further information, please contact alexandra.aarons@cipfa.org

CIPFA COURSE ON STOCK TRANSFER ISSUES

CIPFA recently held a one-day seminar on Housing Stock Transfer issues. Over 50 delegates attended. Ken Lee, Chief Executive of Fylde Borough Council and Chairman of the CIPFA Housing Panel chaired the plenary sessions. Sukvinder Kalsi of Birmingham City Council spoke first, on the broad strategic and financial issues facing authorities. He set out the context of government objectives: the 'decent social housing' target of 33% within three years, the aim of eliminating a repair backlog of some £19bn and the role the Government sees for housing in the wider picture of regeneration. Authorities looking at the strategic issues need to consider carefully:

- the condition of existing stock and likely investment needs
- the demand or need for local authority housing
- trends in the social housing market and in the owner-occupied market.

Authorities also need to appreciate fully the role played by social housing in local strategy because it is often a significant part of local infrastructure. Authorities need to analyse the alternative options robustly. Other key strategic issues include tenant aspirations and concerns, political concerns, the sheer complexity of the process of stock transfer, and employee issues such as transfers of undertaking, training, and the process of changeover.

Financial issues include:

- the HRA Business Plan
- prospects under the current financial regime
- operational financial pressures such as arrears, the level of management costs and repairs, and imbalances between responsive and planned repairs.
- the impact on the General Fund of residual costs, rent allowances and the risks involved in overhanging debt if interest rates prove volatile.

Sukvinder ran through the potential options for transfers, the issues to consider in selecting an option and the development of a transfer proposal. The experience of authorities that have already undergone or attempted stock transfers has been that the authority can encounter a great deal of skepticism. Stock transfer is a major decision for both members and tenants, and it is one where a real element of judgment is involved. It is all the more important therefore that proposals should be transparent and that there should be continuous scrutiny and review.

The Community Housing Task Force (CHTF) has its origins in the Government's previous spending review and the decent homes policy and Sarah Webb from the (then) DTLR explained how the CHTF can help authorities, tenants and shadow Registered Social Landlords (RSLs). Common criticisms that arise during

stock transfers are that proposals are adversarial and process-driven, too exclusive, too business plan focused, or too similar, offering little real choice. The CHTF aims to improve the process by encouraging inclusivity and ownership of the proposal, encouraging links, diversifying funding, encouraging competition and choice, promoting best practice and encouraging individuality.

Stock transfers involve some fairly complex accounting issues and Bev Angell of Nottingham City Council ran through these in depth. The issues he covered included:

- sale price – tenanted market value and the completion of the single transfer model used to assess transfer proposals
- capital receipt – the net capital receipt derived from tenanted market value with deductions for set-up costs, the debt outstanding related to transferred properties and the amount required to repay outstanding housing debt (75% set aside).
- overhanging debt and the need to obtain estimates at an early stage for the cost of repaying PWLB debt
- closure of the Housing Revenue Account if applicable
- the role of local authority support services
- the implications for housing benefits.

Anne Turner, Finance Director of the Jephson Housing Group, took delegates through the issues facing RSLs both pre-transfer and post-transfer. In the afternoon sessions, delegates looked at the process of stock transfer in practice with a case study based on the experience of Mid Beds District Council and Aragon Housing Association. Jaki Salisbury, Chief Executive of Mid-Beds District Council and Alan Humphreys, Chief Executive of Aragon Housing Association spoke on the options explored and then adopted there, including their decision-making process, how the transfer was managed, consultation and the future for the transferred stock.

RESPONSE TO CONSULTATION ON A NEW FINANCIAL FRAMEWORK FOR LOCAL AUTHORITY HOUSING

In September, CIPFA submitted a response to the ODPM consultation paper *A New Financial Framework for Local Authority Housing*. This response is set out below:

- 1 CIPFA is pleased to comment on the consultation paper *A New Financial Framework for Local Authority Housing*.

General

- 2 The paper makes further proposals following on from the earlier consultation paper *HRA Subsidy and Rent Restructuring: July 2001*. CIPFA welcomes the Government's policy to make social rents fair, affordable and less confusing for tenants and an adjustment of the HRA subsidy system in England to reflect rent restructuring is clearly a necessary consequence of the policy.
- 3 In CIPFA's view, rent restructuring and consequent reform of the subsidy system could present an opportunity for local authorities to become less dependent on subsidy and more able to exercise choice over improving services. Under the proposals in the consultation paper, any increases in income for individual authorities would be offset by a reduction in the subsidy received. If instead authorities were allowed to keep at least some part of the extra rent to be derived from rent increases, there would be greater incentives for authorities to improve housing services.

Adjusting the HRA subsidy system for 'caps' and 'limits'

- 4 CIPFA would welcome clarification on the implications for caps and limits if there were a significant change in the rate of inflation.
- 5 In terms of the practical issues, section 2.3 of the paper proposes three possible options for dealing with the problem that local authorities will not be able to calculate either their constrained or unconstrained

restructured rents for the forthcoming year at the time they need to complete their HRA base data return in August:

- (a) Making the adjustments a year in arrears.
 - (b) Setting the adjustments for the forthcoming year using the previous year's constrained and unconstrained rents.
 - (c) The Department issuing provisional figures for inflation and the real uplift in time to allow authorities to provide constrained and unconstrained average rents for the coming year in their August base data returns.
- 6 In CIPFA's view option (b) above is very complex and option (c) above would be preferable to options (a) or (b).

Service Charges

- 7 Overall, CIPFA welcomes the Department's overall approach to Service Charges in Chapter Three of the consultation document. However, in CIPFA's view, the new proposals in Section 3.3 still leave some aspects of service charging unclear and further clarification from the Department is needed.
- 8 In particular, CIPFA would welcome a clearer direction from the Department, possibly in schedule form, of exactly what costs can be included in the 'broad definition' of service charges and some indication of how those costs should be charged.
- 9 CIPFA specifically welcomes the proposal that local authorities should have some local discretion on what services it is appropriate to levy charges. CIPFA would also welcome clarification from the Department on what the impact will be on the actual Housing Revenue Account if authorities, exercising the proposed discretion, levy service charges at less than the full economic cost.
- 10 It appears to CIPFA that problems remain with the proposals for unpooling within the maximum rent cap. In CIPFA's view, it needs to be recognised that for those

authorities that currently pool all such costs and do not have a separate charging policy there will be difficulties in disaggregating the charges and introducing an effective charging policy within the rent restructuring rules of RPI +0.5% +/- £2.

Supporting People

- 11 CIPFA supports the Department's wish to avoid the sudden imposition of separately identified support charges where previously there were none and sudden rises in those support charges which were previously partially subsidised from the rent pool, but notes the Department's comment in 4.2.8 that the resources are no longer available to fund transitional protection at the levels proposed in paragraphs 4.2.6 and 4.2.7 and that therefore the costs will need to be funded by the authorities themselves. In CIPFA's view, however, the extent of the cost implications from paragraph 4.2.8 remains unclear and CIPFA would welcome further guidance from the Department clarifying the cost definitions.
- 12 Paragraph 4.2.9 proposes to extend the range of uses to which windfall gains can be put. Again, in CIPFA's view there needs to be some guidance or clarification from the Department setting out these uses and the priority to be given to them in terms of first calls against windfall gains.
- 13 Section 4.3 seeks views on whether housing related support services should be accounted for in (a) the Housing Revenue Account or (b) the General Fund. In CIPFA's view, the preferable option would be option (b), the General Fund, in order that the Housing Revenue Account can remain a "landlord" account.

NEW FOR CIPFA STUDENTS

CIPFA's June 2002 Examination **Pass Lists** are available for viewing online on the CIPFA website (www.cipfa.org.uk). Simply choose the appropriate level of exam followed by the letter of the alphabet that the candidate's surname starts with.

WHAT'S TOPICAL IN HOUSING FINANCE? RECENT HELPDESK QUERIES

Many CIPFA members in housing finance face the same or similar problems. Some of the queries most frequently asked of the CIPFA Helpdesk in recent months are set out below, together with the replies given.

Q The Government has made the assumption that authorities can use the Major Repairs Allowance figure instead of depreciation but the District Auditor has threatened to qualify our authority's accounts if we do not do the calculation to see what the difference is between the two.

A What the (then) DTLR said can be summarized as:

The Major Repairs Allowance can be used as an estimate for depreciation as long as the Chief Finance Officer (CFO) is content that this won't lead to material distortion. Some District Auditors have asked the CFO to calculate depreciation to show that there isn't any material difference. CIPFA's understanding is that this is not what was intended. It is not of course unreasonable for the DA to ask the CFO to support his/her view that the difference wouldn't be material - but that is not the same as requiring a calculation to be done.

Q We have a situation where we temporarily financed capital expenditure in 2000/01, awaiting capital grant. The grant will be forthcoming but has not yet been received. We have read the regulations and have the following queries:-

The CIPFA Capital Accounting Arrangements under Part IV go back to the Local Government and Housing Act 1989 (*the Act*) - fully revised guidance notes for practitioners 2000 state (para 4.2.7) that "the relevant expenditure can be carried forward indefinitely". On page 173 of the Guidance, the calculation of the ACL - includes a section on temporary capital borrowing where the calculation is adjusted for grants receivable re expenditure

incurred more than 18 months before the current date.

Section 62 (5) of the LG and Housing Act 1989 - states that "the temporary borrowing limit at any time is so much of the expenditure defrayed by the authority for capital purposes in the 18 months ending at the time as is due to be".

My understanding of this is that providing the expenditure can be funded through another means eg revenue balances then it can be carried forward year on year (unless we are aware that the grant will not be forthcoming).

How does the 18 month rule apply - is it the 18 months preceding the year end date based on actual expenditure defrayed?

A The Local Government and Housing Act 1989 allows authorities to capitalise payments that meet the statutory definition of expenditure for capital purposes, which "the authority determine is ... to be reimbursed or met out of money ... to be provided by any other person ..." (section 42(2)(g) of the 1989 Act). Authorities are then justified in leaving the expenditure uncovered until the grant monies are received. If the authority does not have surplus cash to make good the deficit while waiting for the grant to come in, it is entitled to borrow to meet the capital outlay.

Confusion then arises because the aggregate credit limit (ACL) appears to put an 18 month restriction on the period over which this borrowing can take place (section 62(5) of the 1989 Act). However, careful reading of this section shows that this is not a restriction. The temporary capital borrowing limit (TRBL) is a sum that is taken into account in working out the overall ACL. Authorities are restricted from borrowing more than the total ACL, but they are not at all restricted, say, from temporary capital borrowing above the TRBL. If there is headroom in other elements of the ACL, then temporary capital borrowing can be taken out using this

headroom. And even if the temporary borrowing takes the authority over the total ACL, then the scope is there for the authority to apply to the Secretary of State for an ACL extension.

In summary, the 1989 Act makes it perfectly legitimate for authorities to rely on grant income to finance capital expenditure, and to borrow if the expenditure is incurred in advance of receipt of the grant. The ACL is basically a warning system, requiring authorities to inform the Secretary of State where they are relying on grant income that has still not been paid 18 months after the authority's entitlement was established. (We have usually assumed that the 18 months rule applied from the date on which the authority satisfied all the conditions necessary to be entitled to the grant, which might be the incurring of qualifying expenditure.)

Q For a number of years we have treated Housing Association Grants (LASHG Schemes) as deferred charges, but written them off straight away to the Capital Financing Reserve (by-passing the Consolidated Revenue Account). Housing Renovation Grants have been treated in a similar way, but are consolidated into the Revenue Account (shown under Housing Services) and then appropriated to the CFR. Our auditors are querying our accounting entries for LASHG, saying that the write-off should appear on the face of the CRA and shown as an appropriation. I cannot see the rationale of dealing with Housing Association Grants in this way, so can you answer three questions for me:

- (1) Should LASHG be treated as a deferred charge on the balance sheet?
- (2) Should the write-off be shown in the CRA, and if so where?
- (3) Is there any SORP / Capital Accounting Guidance on this point that I can refer to?

A (1) It may need to be set up as a DC if it is a capital item.
(2) Within GF Housing

- (3) SORP 3.15; Capital Accounting GN Chapter 11 'Accounting for Deferred Charges'.

The CIPFA Members' Helpdesk offers members and registered students a service providing information, guidance and advice on professional issues. Please note that the advice offered by the Members' Helpdesk should not be taken as an authoritative interpretation of the law, and should not be considered as constituting a definition of proper accounting practice. Answers offered are based solely on the information provided to the Helpdesk. All reasonable care is exercised in preparing responses to questions. However enquirers should always refer to the primary sources before relying on this advice, and check any interpretation of published guidance with their own professional advisors.

PUBLIC MANAGEMENT AND POLICY ASSOCIATION (PMPA)

The PMPA is a national membership organisation managed and supported by CIPFA which is designed to bring together managers and policy makers from across the public services. The PMPA provides a forum in which members can discuss public policy and management issues that straddle programmes and sectors. PMPA members receive copies of CIPFA's quarterly journal (Public Money and Management), the PMPA Review (4 issues each year) and PMPA Reports. It runs up to 10 lectures a year and has an annual conference – the 2002 conference was on 'Delivery, Delivery, Delivery – Are the right people doing the right things?' The PMPA also runs sounding boards and workshops. The PMPA is supported by over 20 associated bodies, including CIPFA, ACCA and CIMA.

In October, the PMPA will publish the second edition of its popular *Report 'The State of Britain: a guide to the UK Public Sector'* by Professor Andrew Massey. The First Edition, published in 1999, provided a comprehensive introduction to the structure and activities of the British public sector and explored the most important issues in public administration of recent years. Completely revised and updated, the second edition has been expanded to take account of the Labour Government's flurry of

constitutional changes and administrative reforms including

- Devolution to Scotland, Wales and Northern Ireland;
- Local and regional government reform;
- The *Value for Money* initiative and *Public-Private Partnerships*;
- The *Europeanisation* of British governance.

PMPA members will each receive a complimentary copy on publication. Individuals and organizations wishing to purchase copies should contact helen.carter@cipfa.org

The PMPA runs an extremely popular evening lecture programme (priority for places goes to PMPA members). Forthcoming speakers include Stuart Etherington, Chief Executive, National Council for Voluntary Organisations (NCVO) on 22 October.

Over the coming months the PMPA will be running a series of early evening lectures in London on the theme 'Tackling inequality – the key to community leadership and modernisation?' Leading speakers from across the public services will consider the theme from a variety of angles including funding, race, health and housing.

JOINING IN

The PMPA website www.pmpa.co.uk has recently been redesigned and updated with new content. New features include downloadable articles and lecture texts, online event bookings, and a members-only area.

Further information on joining the PMPA is available from Sandra Harper at CIPFA, 3 Robert Street, London WC2N 6RL. Tel: 020 7543 5679; fax 020 7543 5695; email: sandra.harper@cipfa.org

CIPFA'S HOUSING PANEL

The Housing Panel meets three times a year and is responsible for all financial management and policy issues that affect local authority housing. CIPFA has a separate Panel, the RSLs Panel, for the financial management and policy issues

affecting Registered Social Landlords. The Housing Panel:

- develops Institute responses to Government, professional bodies' and other bodies' consultation /discussion papers and exposure drafts
- develops, promotes and maintains best practice, standards and guidelines
- produces and disseminates relevant advice and material for members and employers in local authority housing
- establishes positive and productive professional relationships with Government departments and agencies, the national audit bodies, professional regulators and other bodies falling within the Panel's defined areas of responsibility.

The Housing Panel is currently working on *A Guide to the Financial Management of Housing Benefit*. The Guide is expected to be published in the next six months and will be available from the CIPFA Shop.

The Panel held two meetings in 2001 and is scheduled to meet three times in 2002. The next meeting is on **7 November**.

The current Panel members are:

Ken Lee (Chairman)	Fylde Borough Council
Bev Angell John Hawes	Nottingham City Council Sedgefield Borough Council
Howard James	National Assembly for Wales
Sukvinder Kalsi John Kettlewell Patrick McCarthy	Birmingham City Council LB Tower Hamlets Homezone
Geoff Petty Jane West Simon Wiles Sally Williams	Powys County Council LB Lambeth City of York South Gloucestershire
Lesley Lodge (Secretary)	CIPFA
By invitation Ewan Rayner John Apps	Consultant DTLR

USEFUL LINKS

CIPFA

Click onto CIPFA's website at www.cipfa.org.uk for a wealth of information on the different aspects of CIPFA's activities. There is a separate section for the work of the Housing Panel and for each of CIPFA's other Panels and you can purchase CIPFA publications online. CIPFA's recent response to the Transport, Local Government and the Regions Select Committee Inquiry into the Draft Local Government Bill, for example, is set out in full on the website. The response covers issues on housing finance, capital finance and accounts and grants.

ODPM

Housing information previously held on the DTLR website has been migrated to the new ODPM site:

<http://www.housing.odpm.gov.uk/index.htm>

Papers from the ODPM currently out for consultation can be accessed at:

<http://www.housing.odpm.gov.uk/information/consult/index.htm>

The current consultation paper on capital finance is accessible at:

<http://www.housing.odpm.gov.uk/information/consult/capitalfinance/index.htm>

Survey Of English Housing

Key results from the 2001/02 Survey of English Housing, published as Housing Statistics Summary No 13, are available at:

<http://www.housing.odpm.gov.uk/statistics/publicat/summaries/013/index.htm>

Local Government Association

www.lga.gov.uk

A useful source of briefings on, for example, RSG or the latest White Paper.

CONTACT

If you have any comments or suggestions regarding this Newsletter or the work of the Housing Panel, please contact Lesley Lodge, Finance and Policy Manager, 3 Robert Street, London WC2N 6RL or email on lesley.lodge@cipfa.org

For further information on CIPFA and its activities, visit the CIPFA website at www.cipfa.org.uk